



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



FILE COPY

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September 16, 2011

Honorable Michael McMillan
License Collector
City of St. Louis
1200 Market Street, Room 104
St. Louis, MO 63103-2884

RE: Revenue Review of the License Collector's Office - Graduated Business License
(Project # 2011-19)

Dear Mr. McMillan:

Enclosed is a report of the revenue review of the License Collector's Office-Graduated Business License for the period of January 1, 2009 through March 31, 2010.

The fieldwork was completed on April 5, 2011. Management's responses to the observations and recommendations noted in the report were received on September 12, 2011 and have been incorporated in the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section (314) 622-4723.

Respectfully,

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure



CITY OF ST. LOUIS CITY OF ST. LOUIS

LICENSE COLLECTOR'S OFFICE

GRADUATED BUSINESS LICENSE

REVENUE REVIEW

JANUARY 1, 2009 THROUGH MARCH 31, 2010

PROJECT #2011-19

**DATE ISSUED:
SEPTEMBER 16, 2011**

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
LICENSE COLLECTOR'S OFFICE
GRADUATED BUSINESS LICENSE
REVENUE REVIEW
JANUARY 1, 2009 THROUGH MARCH 31, 2010**

EXECUTIVE SUMMARY

Purpose

The Internal Audit Section (IAS) has completed a revenue review of the License Collector's Office-Graduated Business License from January 1, 2009 through March 31, 2010. The objectives of this review were to determine:


- The accomplishment of established objectives and goals
- Compliance with applicable laws, regulations, policies and procedures
- The reliability and integrity of operational information
- The reliability and integrity of financial information

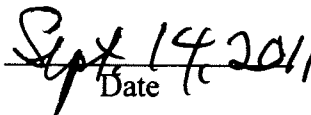
Conclusion

The opportunity exists for the License Collector's Office to improve internal controls over the operational and fiscal activities. The following are observations resulting from the review:

1. Opportunity to improve compliance with applicable laws, regulations, policies and procedures.
2. Opportunity to improve the reliability of operational information.
3. Opportunity to improve analysis of accounts receivable for Graduated Business License.
4. Opportunity to competitively bid banking services.

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.


Dr. Kenneth M. Stone, CPA
Internal Audit Executive


Date

**CITY OF ST. LOUIS
LICENSE COLLECTOR'S OFFICE
GRADUATED BUSINESS LICENSE
REVENUE REVIEW
JANUARY 1, 2009 THROUGH MARCH 31, 2010**

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DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

INTRODUCTION

Background

The License Collector's Office is an elected office responsible for collecting various fees and taxes from businesses located within the City of St. Louis, and businesses doing business within the City of St. Louis. The duties, regulations, business taxes and license fees collected by the License Collector's Office are set forth in Chapter 8 of the Revised Code of the City of St. Louis. Section 92.045 Revised Statutes of Missouri empowered the City of St. Louis to license and tax all businesses operating within the City of St. Louis that were not expressly exempt. The Graduated Business License (GBL) is a graduated tax based upon the number of employees working within the City of St. Louis. The tax ranges from \$200.00 per year for two or less employees to \$37,500.00 per year for five hundred and one or more employees.

Purpose

The objectives of this review were to determine:

- The accomplishment of established objectives and goals
- Compliance with applicable laws, regulations, policies and procedures
- The reliability of operational information
- The reliability and integrity of financial information

Scope and Methodology

The review was confined to evaluating internal controls over revenue processing from January 1, 2009 through March 31, 2010. The procedures included inquiries of management and staff, observation of relevant processes, and reviews for compliance with policies and procedures, as well as applicable laws and regulations. The related controls were tested on a limited basis, prior audit observations were followed up, and other procedures were performed as considered necessary.

Exit Conference

An exit conference was held on June 16, 2011. The License Collector's Office was represented by Aaron Phillips, Chief Deputy License Collector and Kalifa Gray, Compliance Officer. The Internal Audit Section was represented by Dr. Kenneth M. Stone, CPA, Audit Executive; Dr. Ishmael Ikpeama, Audit Supervisor and William B. Weir, Auditor-in-Charge.

Management's Response

Management's responses to the observations and recommendations identified in this report were received from the License Collector's Office on September 12, 2011. These responses have been incorporated into this report.

OBSERVATIONS

Status of Prior Observations

The Missouri State Auditor issued an audit report on the License Collector's Office in June 2009. The findings that relate to Graduated Business License are listed below:

1. Businesses Operating Without Valid Licenses **(Resolved)**.
2. Follow-up on Delinquencies and Pending Applications **(Resolved)**.
3. Verification of Business License Applications **(Resolved)**.
4. Bank Accounts **(Partially Resolved)** See current observation #4.

Summary of Current Observations

The following are observations resulting from our review:

1. Opportunity to improve compliance with applicable laws, regulations, policies and procedures
2. Opportunity to improve the reliability of operational information
3. Opportunity to improve analysis of accounts receivable for Graduated Business License
4. Opportunity to competitively bid banking services

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

1. Opportunity To Improve Compliance With Applicable Laws, Regulations, Policies and Procedures

The Missouri Statutes, St. Louis City Ordinances and Revised St. Louis City Code provide for the orderly and timely issuances of Graduated Business Licenses (GBL). Internal Audit Section reviewed files of 100 businesses subject to GBL to determine if they complied with the applicable statutes, ordinances and codes for the timely issuance of the GBL. It was noted that the businesses in the following instances did not comply with applicable GBL statutes, ordinances and codes:

- Three of the 100 businesses reviewed filed GBL applications after the due date of May 31 of the license year and the grace period allowed by the License Collector's Office without paying a late file penalty.
- One business was denied the GBL for the fiscal year 2008 until it paid the license fee for fiscal 2009 with the late file penalty and interest. The license was eventually issued; however, the business did not pay the late file penalty and interest on the late filing of the 2008 GBL.
- The License Collector's Office did not follow the process of notifications and hearings as specified in St. Louis City Ordinance No. 62619 and St. Louis City Revised Code Chapter 8.02.073 through 8.02.075 to resolve issues, preventing license issuance, with three businesses with extensions (Code 99) for two to three years.

St. Louis Revised Code (SLRC) Chapter 8.07.040 states in part "Thereafter, all business subject to the graduated business license tax shall file a business license application upon forms prepared by the License Collector and pay the applicable graduated business license tax by every subsequent May 31".

St. Louis Revised Code (SLRC) Chapter 8.06.090 states in part "Any business that fails to make application for the graduated business tax when due or fails to pay the tax when due shall be subject to the same penalties, interest and fines as other businesses under Title 8 of the Revised Code of the City of St. Louis". The late file penalty is to be five percent per month or partial month increased by five percent for each month to a maximum of twenty-five percent. The late pay penalty of twenty percent is to be imposed on all payments paid sixty days or more after due date.

The timeline as laid out in SLRC Chapter 8.06.090 was not followed when a license cannot be immediately issued. At the time of the observation, it was noted that a hearing had not taken place.

Non-compliance with applicable laws and regulations may lead to potential loss of revenues, penalties and interest.

1 Continued . . .

Recommendation

It is recommended that the License Collector's Office increase compliance with established procedures and guidelines that will allow the orderly and timely resolution of businesses found to be non-compliant.

Management's Response

The License Collector's Office allowed businesses an extension of time to file their license application without penalty, as provided by City Code 8.02.180, Extension of Time. The three businesses mentioned were waiting for a clearance from another City of St. Louis office. Until those businesses receive clearance, their status in the Lands Records Management System (LRMS) will remain a code 99, which represents a pending action.

2. Opportunity To Improve The Reliability And Integrity Of Operational Information:

The Revised St. Louis City Code provides for the collection of complete and accurate information from license applicants. Testing of applicants files revealed:

- There were businesses with invalid information in the Land Records Management System (LRMS):
 - 14-Businesses that did not have business start dates that defaulted to the system date.
 - 15-Businesses that did not have license payment dates that were in sync throughout the system that defaulted to the system date.

Management must ensure that information is properly updated and in sync throughout the system.

Recommendations

It is recommended:

- The License Collector's Office update policies and procedures to ensure all mandated activities are carried out according to the existing city ordinances.
- Information entered in the LRMS system is correct so the timely status of businesses can be determined.

Management's Response

All of the aforementioned Lands records Management System (LRMS) errors have been correct by the city's IT department. It is important to note that the defaulted dates in the LRMS were due to conversion errors by the city's IT department, which were not the fault of the License Collector's Office. The LRMS is under the control of the city's IT department, while our office is only given limited access to processes required for issuing business licenses.

3. Opportunity To Improve Analysis Of Accounts Receivable Of Graduated Business License

The Internal Audit Section selected 100 businesses to test for compliance of the different aspects of the GBL application and issue process. The License Collector's Office created a listing of balances due from the 100 businesses in the sample selection labeled "Trial Balance as of February 17, 2010".

The License Collector's Office had developed policies and procedures that were designed to cause review of businesses with codes that indicated some state of non-compliance with the GBL application process. In review of the License Collector's Office files, the aforementioned business was noted not to be in compliance. Test of the aged accounts receivable disclosed the following:

- According to the trial balance, River Front Safety Health owed \$325 for 2009 GBL with the status code 61 (delinquent). IAS tests revealed that this business did not pay any GBL for the last five years (2006 through 2010). Based on the discovery, the License Collector Office recovered \$2,975, in delinquent GBL including late filing penalties for these years.
- Jag Electrical Systems, LLC overpaid GBL for 2009 by \$100. The over payment was made on March 4, 2010 and it remains un-refunded or credited to the account as of the end of the fieldwork date of this review.

Recommendations

It is recommended that the License Collector's Office establish procedures to allow for the reconciliation of outstanding items.

Management's Response

The License Collector's Office has policies and procedures in place to identify and collect unpaid taxes. 99percent of the accounts tested were current. Although not perfect, we do strive for 100 percent compliance. Taxpayers are notified of any over paid taxes. Over paid taxes are either refunded or applied to a future license account.

4. Opportunity To Competitively Bid Banking Services

As noted in the State Auditor's report and in an interview with Deputy License Collector, the License Collector's Office has not competitively procured banking services since at least 2005. The current agreement with Royal Bank expired on March 31, 2010 and has been extended on a monthly basis since.

Section 10.010, RSMO, states, in part, that public funds of every city which are deposited in any banking institution acting as a legal depository of the funds under the statutes of Missouri, requires the letting of banking services.

4 continued....

Without competitive procurement of banking services there is no assurance of receiving the lowest fees and highest interest rates available. Subsequent to this review the License Collector's Office issued a request for proposals to provide banking services to the License Collector's Office and executed an agreement for month-to-month extensions of the depository agreement.

Recommendations

It is recommended:

- The License Collector's Office complete the bidding process for its banking services.

Management's Response

A request for proposal to provide banking and lock box services was mailed to eight (8) financial institutions. A copy of the RFP was provided to the auditors. The deadline for the RFP was August 1, 2011 and the selection of the bank has been made. Going forward, the License Collector's Office will continue to competitively procure banking services prior to the end of the current agreement.